Doing Business in Nicaragua: A Country Commercial Guide for U.S. Companies

Chapter 1: Doing Business in Nicaragua

Market Overview Return to top

- On April 1, 2006, the United States – Central America – Dominican Republic Free Trade Agreement (CAFTA-DR) entered into force for the United States and Nicaragua. 80% of U.S. exports of consumer and industrial goods now enter Nicaragua duty-free, with remaining tariffs to be phased out by 2016. Tariffs on most U.S. agricultural products will be phased out within 15 years, with all tariffs eliminated in 20 years.

- With CAFTA-DR, Nicaragua also offers substantial market access for U.S. firms across the entire services regime, including telecommunications, express delivery, computer and related services, tourism, energy, transport, construction and engineering, financial services, insurance, audio/visual and entertainment, and professional services. The agreement features key protections for U.S. investments and intellectual property (see Chapter 6: Investment Climate Statement). It also includes commitments on environmental standards, labor rights, government procurement, and corruption.

- The United States is Nicaragua's largest trading partner, the source of roughly 22% of Nicaragua's imports in 2007 and the destination for approximately 55% of its exports (including free zone exports). U.S. exports to Nicaragua were $846.8 million in 2007, including donated goods, cereals, mechanical machinery, textiles and apparel, electrical machinery, and plastics. Nicaraguan exports to the United States were $1,608.4 million in 2007, including textiles and apparel, wiring harnesses, coffee, meat, tobacco, sugar, and fruits and vegetables. Other important trading partners for Nicaragua are its Central American neighbors (especially El Salvador and Costa Rica), Mexico, and the European Union.

- Foreign direct investment in Nicaragua totaled $335 million in 2007. There are more than a 100 wholly or partly-owned subsidiaries of U.S. companies currently operating in Nicaragua. The largest of these investments are in textiles, energy, financial services, light manufacturing, tourism, fisheries, and shrimp farming. Other major investors include Mexican, Canadian, and other Central American firms.

- Since taking office again in January 2007, President Ortega has maintained the legal and regulatory underpinnings of the market-based economic model of his predecessors. He has, however, repeatedly disparaged the "neo-liberal" model of economic growth. Nicaragua has stayed current with its CAFTA-DR obligations. Under an International Monetary Fund program signed in October 2007, the Government of Nicaragua agreed to implement free market policies linked to targets on fiscal discipline, spending on poverty, and energy regulation. Real GDP growth was 3% in 2007, the lowest in Central America. Inflation in 2007 reached 16.88%, driven by rising oil prices and crop damage caused by bad weather.

Market Opportunities

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- The passage of CAFTA-DR has provided new market opportunities for U.S. exports to Nicaragua. The treaty has also provided new opportunities for Nicaraguan exports to the United States, especially for meat, dairy, seafood, agricultural produce and processed foods.

- Continued advances in transforming the Central American Common Market into a customs union make Nicaragua a viable option for a regional distribution center or a manufacturing stop along a regional supply chain.

- Nicaragua offers business opportunities in the tourism sector that are enhanced by attractive tax incentives. Nicaragua's emerging tourism industry allows for opportunities to those entrepreneurs who fully accept the risk of investing in Nicaragua, especially as regards disputes over land title.

- The Millennium Challenge Corporation Compact, with a total value of $175 million, was signed by the United States and Nicaraguan governments in July 2005. The compact promises to link producers to commercial markets by working with market intermediaries and improving transportation infrastructure in the departments of Leon and Chinandega.

- Market opportunities exist in the following sectors: textile and apparel, vehicles, auto parts and equipment, consumer goods, computer equipment and peripherals, telecommunication equipment and services, medical, optical and dental equipment, plastics, agricultural inputs, food processing and refrigeration equipment, wheat, yellow corn for animal feed, vegetable oil, and rice.

Market Challenges

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- Poor infrastructure increases costs for many businesses. Electricity supply is inconsistent, and for several months during 2007 rolling blackouts affected most of the country. Because oil is the fuel used by most power plants, electricity is the most expensive in Central America. With the exception of the Pan-American Highway, roads are poorly maintained and sometimes impassable. Seaport infrastructure is limited and costs are high.

- President Ortega’s harsh rhetoric against the United States, capitalism, and free trade has had a negative effect on foreign investor attitudes and perceptions of country risk. Protracted political battles among branches of government and between parties in the National Assembly have limited Nicaragua’s ability to develop laws and institutions and implement policies that would strengthen the private sector in the face of global competition.

- The Nicaraguan economy is small and purchasing power is limited for many consumers. Of the total population of 5.4 million, 75.8% live on $2 a day or less. Family remittances of $740 million per year significantly augment incomes for many Nicaraguans.

- The legal environment is among the weakest in Latin America. Property rights are especially difficult to defend. Nicaraguans commonly believe that the judicial system is controlled by political interests and is corrupt. Investors regularly complain that regulatory authorities are arbitrary, negligent, slow to apply existing laws, and often favor one competitor over another. Lack of a reliable means to quickly resolve disputes with administrative authorities or business associates has resulted in disputes becoming intractable.

Market Entry Strategy

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- The use of agents and distributors is the most common way to export U.S products and services.

- One agent for the country is sufficient as commercial activity is concentrated in the capital Managua and the size of the country does not justify regional agents.

- A local lawyer should be consulted to determine the pros and cons of various agency or representation agreements

- U.S. companies should visit potential partners or agents prior to entering into a relationship.

- U.S. firms should check the bona fides of potential partners before establishing a formal business relationship.